Tim McElvaine

McElvaine Investment Management Ltd.

Manager Monitor

Diana Cawfield

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Deep value manager fine-tuned his approach after going through a rough period.

The woebegone, the forgotten and the depressed. That's how Tim McElvaine describes what you'll find in his deep-value stock portfolios.

"It's really a John Templeton idea," says McElvaine, lead manager of the $219-million Mackenzie Universal Canadian Value Class. "In an interview, someone asked him, where's the best investment in the world and Templeton said, the question you should be asking is, where is the worst, because that's where you're going to get the cheapest prices."

McElvaine, president of McElvaine Investment Management Ltd. in Vancouver, has managed the Mackenzie fund since February 2009. For affluent investors, he manages McElvaine Investment Trust, which requires a minimum investment of $25,000.

The now retired Peter Cundill, McElvaine's mentor and long-time colleague, is the biggest investor in this fund, which has been sold via offering memorandum since October 1996.

While the two mandates employ a similar value discipline, the Mackenzie fund is more widely diversified. It holds 30 to 35 securities, compared with the 15 to 20 in McElvaine Investment Trust.

Also, the McElvaine fund has exposure to a wider range of investment ideas and market capitalizations. Unlike the Mackenzie fund, which must hold at least 51% in Canadian securities, the McElvaine mandate is not bound by any specific geographic constraints.

McElvaine uses the acronym ABBA to describe four of his key stock-picking criteria. One holding in both mandates, the newspaper publisher Glacier Media Inc. GVC , illustrates this approach.

"A" stands for accident. Glacier Media not only faces advertising challenges, "they're also tainted by the newspaper business, so it fell from $4.40 to below $2," says McElvaine.

"B" -- the bird in the hand -- looks at where businesses like Glacier trade on the basis of private market value, and this value should exceed its current stock-market capitalization. The second "B," the brick-house idea, represents the company's very high free-cash-flow generation, strong balance sheet, paying down of its debt, quality of management and other strengths.

The last "A" represents alignment of interest of the company management and the shareholders. "I've been on a number of corporate boards, says McElvaine, "so that's something I think about too."

The ABBA approach grew out of McElvaine's reassessment of his investment discipline after McElvaine Investment trust went through a rough period. "My mistakes in the trust came from two areas," says McElvaine, candidly. "One, perhaps too over-concentrated, and secondly, I didn't think enough about the brick-house factors." Always considering himself the pig in the house now, he wants to make sure that his house of stocks is made of bricks, not sticks.

Currently, the fund has a 3-star Morningstar Rating in the Canadian Focused Small/Mid Cap Equity category, though it's a below-median performer in its peer group over the past 10 years ended May 31.

Sector plays aren't part of McElvaine's discipline. If he happens to be concentrated in a particular industry, it's because he found one good idea, and then another.

Tim McElvaine: McElvaine Investment Management Ltd.

Historically, McElvaine's portfolio turnover "tends to be between 30% and 40%." He adds that he'd like to have higher turnover because that would mean his stocks were going up quickly, "but the fact is, I'm a value guy and they take a while to go up."

McElvaine, 47, grew up in Kingston, Ont., and received a bachelor of commerce from Queen's University in 1986. Upon graduation, he joined Touche Ross, where he obtained a chartered accountant's designation. In 1989, he moved to Bermuda and worked for the Bank of Butterfield, where he earned the CFA designation.

In 1991, McElvaine shifted into the fund industry and joined Peter Cundill at Cundill Investment Research Ltd. in Vancouver. He managed Mackenzie Cundill Canadian Security between 1992 and 1999, and Mackenzie Cundill Value between 1999 and 2004.

McElvaine maintained an association with the Cundill organization until 2004, even while setting up his own company in 1996. After leaving Cundill, having given a year's notice, he continued to run McElvaine Investment Trust.

In 2008, McElvaine started to think about coming back into the retail mutual fund business. When Mackenzie Financial contacted him about returning to the fold, it was easy to accept because of his comfort level with the Mackenzie organization.

Looking ahead, McElvaine considers global market conditions to be favourable for his value style. "Whether or not it's Greece, or the European system or the offshore driller," he says, "there's certainly no shortage of areas that people are interested in getting out of from a top-down perspective. I have enough of a margin of safety, so if the price goes lower, I'll just buy some more."

About the Author
Diana Cawfield is an award-winning writer who has been a regular Morningstar contributor since 2000. Her numerous publication credits include the Toronto Star, Advisor's Edge and Chatelaine, as well as the Canadian Securities Institute's online educational services.